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E.O. 12958: DECL: 11/14/2106  
TAGS: [EFIN](#) [PARM](#) [PGOV](#) [FR](#)  
SUBJECT: CHAIRMAN,S SUMMARY ON WMD PROLIFERATION FINANCING

REF: PARIS 7269

Classified By: Econ Counselor Stuart Dwyer, Reasons 1.4 b and d

(S) We received a letter from Francois Richier,  
PDAS-equivalent for Strategic, Security and Disarmament  
affairs at the MFA, along with a draft Chairman,s summary of  
the recent G7 WMD finance meeting in Paris. Text is  
transmitted below:

BEGIN LETTER TEXT:

Dear Colleagues,  
I would like to thank you all again for attending the October  
25th meeting on proliferation finance in Paris, and for  
actively contributing to the discussions.

Please find attached my Chairman,s summary of our  
discussions as well as a list of participants.

This summary has been prepared under my sole responsibility.  
It is meant to help us keep track of our exchanges for  
further meeting. If one of you feels that a major point has  
been overlooked, I am prepared to take suggestions into  
account until Tuesday, November 14th, COB. I do not intend,  
however, to enter into a drafting exercise.

I think we can all agree to handle this material with the  
highest level of confidentiality.

Yours sincerely,  
Francois Richier

END LETTER TEXT.  
BEGIN SUMMARY TEXT

G7 experts, joined by representative of the European Union  
(from the Office of the High Representative and the European  
Commission), gathered in Paris on 25 October 2006 to discuss  
the challenges associated with proliferation finance.

Resolution 1540 (2004), G8 Heads of States and Governments,  
declaration at the Gleneagles Summit in 2005, G7 Finance  
Ministers and Central Bank Governors, declaration at the  
Singapore Summit in 2006 were all recalled and constituted  
the political framework for expert discussions.

1) Experts assessed the complex reality of proliferation finance, and the role it plays in the wider framework of proliferation networks, in support of proliferators, procurement attempts. Useful briefings were presented, that highlighted the following:

- unlike terrorists, proliferators often use normal international commercial and banking procedures to order goods from their suppliers and to pay them. Proliferators tend to use trusted, national banks, to support their dealings. But many other financial institutions are also used and probably often ignore the very purpose of the transaction they are processing;

- proliferators are vulnerable to financial measures, and so are all the other intermediaries (brokers, shipping companies, front companies) in the proliferation chain. Using financial measures allows to target (SIC) the entire support network that makes proliferation possible, inasmuch as some facilitators and middlemen can easily be deterred if their financial gains become likely to be denied;

- yet, it remains difficult to assess whether a specific transaction of an account is directly linked to a transfer of proliferation concern. In the field of exports controls, where the goods, and alleged end-user are known, a case-by-case assessment can be made; any action against proliferation finance preferably requires an entity-based approach;

- it can also be difficult to trace financial transactions of proliferation concern when proliferators conceal them by using several layers of front companies,

- given the very nature of international trade and of the international financial system, the effectiveness of financial measures depends heavily upon a concerted multilateral action. Such a cooperation approach is also necessary to ensure fair competition between financial institutions.

2) Participants underlined the importance of information exchange, and discussed how best to exchange relevant information and intelligence tips. It was noted that while Financial Intelligence Units (FIUs) form a useful and effective network to fight against money laundering and terrorist financing, their current mandate usually does not include proliferation finance. Export control regimes were not suitable either, as they lacked a cross-border approach to proliferation. The usual intelligence and diplomatic channels were deemed more appropriate, for the time being, to convey the proliferation finance related market.

Partners also commented the importance of information exchange, and discussed how best to exchange relevant to the procurement and financial networks, so as to raise their awareness on the possible misuse of their own financial institutions. Export control regimes (NSG, MTCR, AG) could possibly include proliferation finance as a topic of their broader outreach missions.

3) Experts then examined how financial institutions could be better associated to the non proliferation effort and reviewed possibly existing national tools or mechanisms already available to combat WMD proliferation, including proliferation finance.

The private sector, who is risk-averse, is looking for more information about proliferation finance. The need to increase awareness-raising efforts towards all the financial actors, and to establish a regular dialogue with selected interlocutors, was highlighted. There was also a strong interest in collecting the feedback from the banks and other financial institutions about their own observations of potentially proliferation-related transactions.

4) When it came to specific obligations on the financial sector and to the legal basis on which to prosecute dealings of concern, many countries appeared to lack a specific regulatory framework. How to develop or augment the respective national authorities to impede the financing of proliferation-related activities needs further discussion.

Referring to the designation of entities as part of the non proliferation effort to stem financial flows, different opinions were mentioned: watch lists for the sole use of national authorities could be drafted; semi-public lists could be communicated to selected interlocutors in the private sectors; public lists of entities could be issued. It was underlined that, particularly in the case of the public designations, well-grounded criteria was necessary. A due process of law had to be guaranteed to the designated persons or entities when specific obligations were at stake.

5) Participants then reviewed the relevant for further work.

The G7 was identified as the driving engine of the proliferation finance-related activities. An agreement among the G7 partners was necessary, if not sufficient, to take the proliferation finance issue forward. Using the upcoming G8 presidency to further engage Russia in that effort was also mentioned.

Among the larger fora available to continue and expand the discussion, the Financial Action Task Force (FATF) was judged the most appropriate, FATF is a multi-disciplinary body that can build on a sizable normative experience and includes key countries such as Russia or, soon, China, as well as regional organizations, such as the Gulf Cooperation Council. Participants stressed the need for non proliferation experts to contribute to the work of the FATF should its mandate be expanded in the future to include proliferation finance. With a view to the next plenary meeting of the FATF, in February 2007, a concept paper on the role of the FATF in the field of proliferation finance will be circulated by the United States in the next few weeks. Other participants have expressed interest in associating themselves to this paper. Participants agreed that a full typology exercise in FATF should not be a prerequisite for the task force to start dealing with the issue of proliferation finance.

The possible contribution of the Proliferation Security Initiative (PSI) was also mentioned. It was noted however that PSI no longer had a policy group, and that its original target (namely the inception of shipments of proliferation concern) made it both less suited to the financial dimension of the problem of proliferation and less palatable for third countries that would have sensitized. Yet, there was no objection to continue raising proliferation finance under a point of information of the agenda of PSI meetings.

The Egmont group was also mentioned, but its format was not deemed appropriate for further work.

In the longer term, a greater role of the Security Council in laying down norms to address proliferation finance could be contemplated.

Another meeting at the experts, level would be useful, and participants agreed to remain in close consultation on that matter.

END SUMMARY TEXT

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Please visit Paris' Classified Website at:  
<http://www.state.sgov.gov/p/eur/paris/index.cfm>  
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